the Permanent 124th Annual Report 1978

Cover:

Our Head Office building at 320 Bay Street, Toronto has just reached the half century mark, having been built in 1928. It is considered to be an excellent example of the architectural style of the time, and has been recognized as such by the Toronto Historical Board under the provisions of the Ontario Heritage Act.

the Permanent 124th Annual Meeting, Royal York Hotel, Toronto, Thursday, February 22, 1979

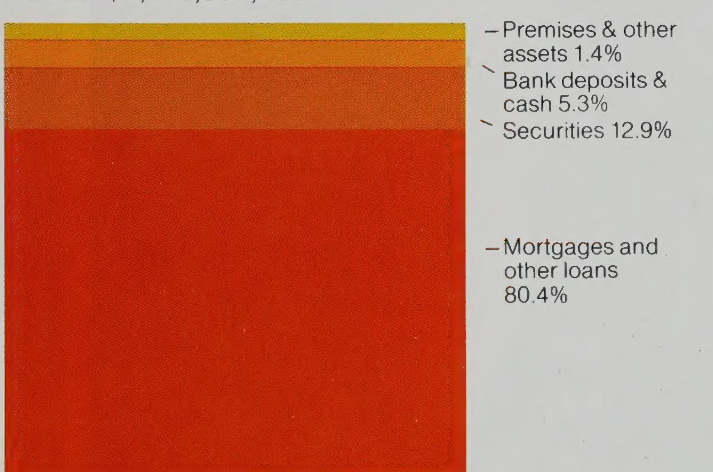
Canada Permanent Trust Company
Canada Permanent Mortgage Corporation

Our Standing at a Glance

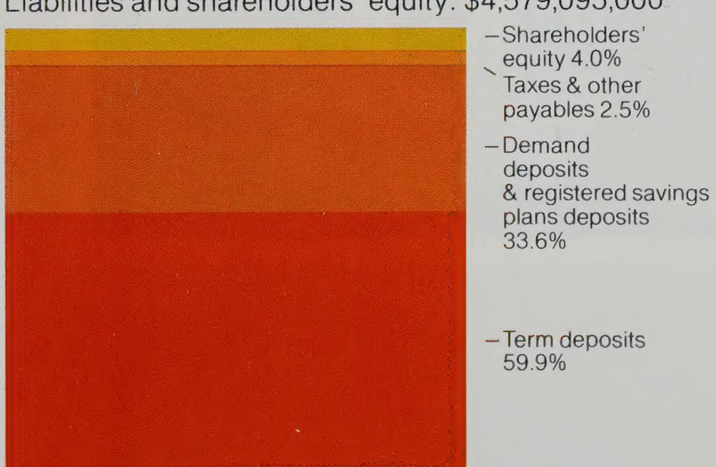
	1978	1977	Percentage increase (decrease)
Net income	**$19,750,000**	$20,364,000	(3.2%)
Net earnings per share–basic	**$2.26**	$2.61	(13.4%)
Dividends per common share	**$1.14**	$1.095	
Deposits, debentures and guaranteed investment certificates	**$4,282,247,000**	$3,775,760,000	13.4%
Mortgages	**$3,404,099,000**	$3,020,413,000	12.7%
Estates, trusts and agencies	**$2,977,968,000**	$2,884,241,000	3.3%
Number of shareholders			
–Common	**6,416**	5,782	
–Preference	**2,219**	1,726	
Number of employees (all companies)	**3,029**	3,036	
Number of real estate commissioned sales agents	**1,787**	1,825	

Balance Sheet Summary

Assets: $4,579,095,000

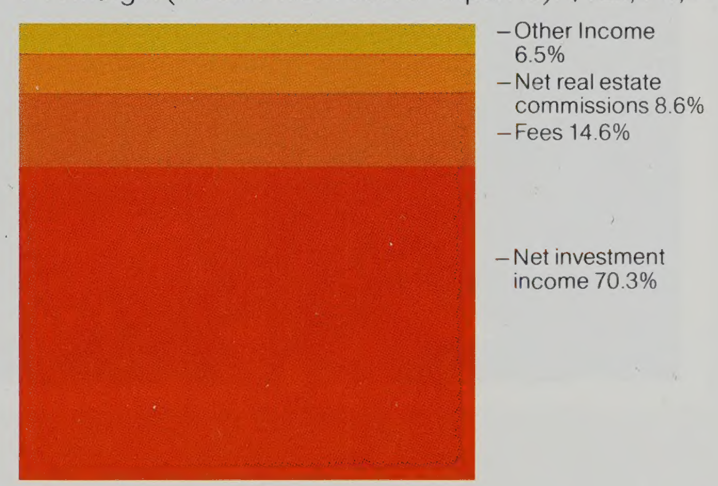


Liabilities and shareholders' equity: $4,579,095,000

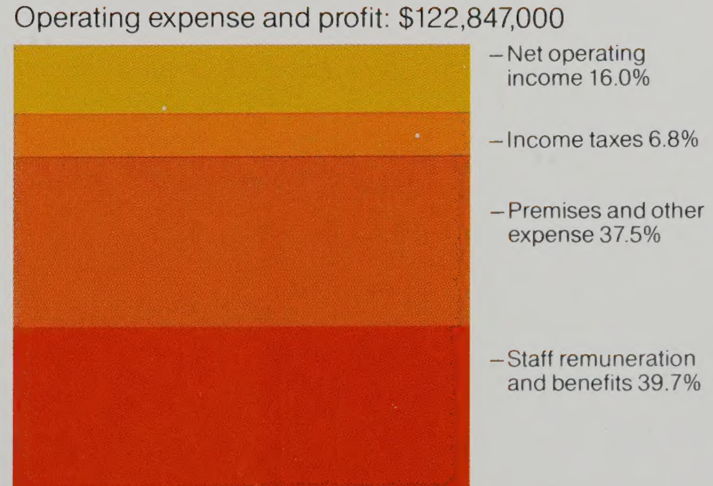


Income Statement Summary

Net Margin (income less interest expense): $122,847,000



Operating expense and profit: $122,847,000



Above: W. Douglas Hatch
Donald G. Neelands

Upper right: William H. Jost

Lower right: Mrs. A. F. W. Plumptre

A Message from the Chairman

Toronto
January 17, 1979.

Dear Shareholder:

Through our annual reports we have continually sought to keep you well informed on the progress of your company. We have explained the forces which influence our course and the reasons behind policies adopted in pursuit of our corporate goals. What we perhaps have not done adequately, however, is to give proper recognition to the vitally important part played by our directors, both past and present. This conscientious and talented group of men and women who represent your interests bear heavy responsibilities. The role of company director has become increasingly onerous and demanding in recent years and we are fortunate in having top calibre people who are willing to serve. Certainly my colleagues in senior management and I deeply appreciate the guidance and practical assistance which we receive from these able people.

Not only do we enjoy a very high level of attendance at the monthly board meetings, but many of our directors who reside near head office also serve on one or more of our directors' committees. Such work involves much reading, study and discussion. As well, our directors represent the company in many communities across the nation. Through their widespread and diversified contacts, they are frequently able to develop new business for the company, and at all times they gladly put at our disposal a wide range of knowledge and experience.

Throughout this report you will find pictures of our present directors. Some were taken in a working environment at committee meetings while others were done in a less formal setting. Together they portray a group in which you, as shareholders, can have every confidence.

Yours sincerely,

Donald G. Neelands

Above: William James
W. Leo Knowlton

Upper left: Roger D. Wilson
John F. Perrett

Lower left: John H. C. Clarry

To our Shareholders

Overview

It was our hope at the end of 1977 that the Canadian economy was on the threshold of a decided upturn. Positive government action in the form of tax cuts and the announcement of the winding down of wage and price controls contributed to this feeling, coupled with the prospect of a strengthening economy in the United States which would provide a ready market for our goods and services, available at bargain prices due to the decline of the Canadian dollar. To some extent 1978 did begin to unfold in accordance with this view, but the recovery, such as it was, proved to be fragile and delicate in the face of persistent inflation. Economic growth was certainly stronger than in 1977 and the year started off with a record number of first quarter housing starts. External forces, however, put upward pressure on Canadian interest rates, which as the year progressed had the dual effect of putting the brakes on growth and aggravating inflationary tendencies.

This environment was particularly unfavourable to The Permanent. The Bank of Canada rate rose six times between March and November, from 7½% to 10¾%, an increase of 3¼%. Corresponding increases in the rates of interest paid to our depositors added almost $10 million to our costs. Shareholders are reminded that it is the nature of our business that such an imbalance cannot immediately be righted by means of increased interest revenue, as the bulk of our assets consists of mortgage loans, which take time to react to rate changes. Moreover, due in part to lower demand for housing, mortgage interest rates did not increase as much as did rates paid on deposits. Consequently, for much of 1978 we suffered declining spreads, with the result that net earnings per common share were reduced from last year's level.

While circumstances have made it necessary to report a drop in earnings per common share, we are not discouraged by this turn of events. The reality is that our business, like most others, is subject to cyclical earnings patterns, and this must be taken into account at all points in the cycle. On the positive side, our assets have grown by half a billion dollars in the year and we are well poised to withstand adverse pressures and to take advantage of favourable conditions when they return. The pursuit of a conservative policy in this time of economic uncertainty has meant lower earnings, but we think that in the long run it will work to the advantage of shareholders. In short, the company is strong, healthy and soundly set for the future.

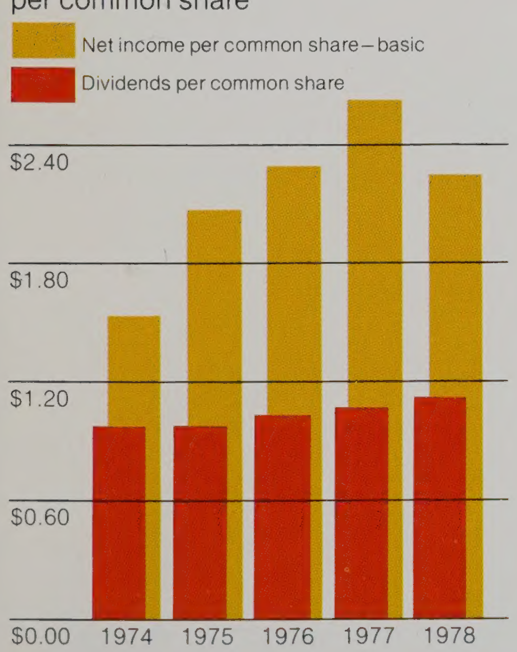
Financial Summary

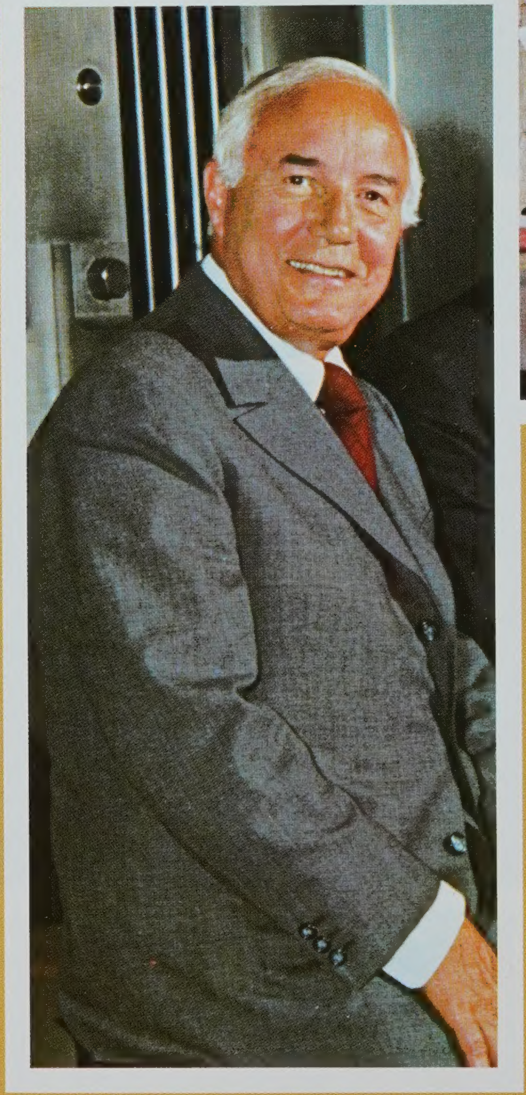
Net earnings, at $19,750,000, were 3% lower than last year's figure of $20,364,000. Dividends on the Series A and B preference shares amounted to $3,704,000, resulting in basic net earnings per common share of $2.26, which represents a net return on average common equity of 12.7%.

The maximum dividend we were permitted to pay during 1978 on each common share, under Anti-Inflation Board guidelines, was $1.14. Distribution of this dividend amounted to $8,096,000, leaving $7,950,000 to be added to the retained earnings account.

In February, 1978, we issued 841,141 series B preference shares with a total book value of $21,029,000 in exchange for shares of Canada Permanent Trust Company which were held by former shareholders of Hamilton Trust, following the amalgamation of the two trust companies which took place in 1977. The preference share issue, coupled with the increase in retained earnings, brings the shareholders' equity to $181,216,000 as at December 31, 1978. Of this amount, $130,187,000 represents the equity of the common shareholders, up 6.5% from the 1977 figure. A small minority interest of $489,000 remains, consisting primarily

Net income and dividends per common share





Above: Colin M. A. Strathy

Upper left: William P. Pigott
Robert C. Dowsett

Lower left: Charles B. Stewart

of shares of Canada Permanent Trust Company held by former Hamilton Trust shareholders who did not avail of our share exchange offer before the expiry date.

Total assets of the company increased by 13% to $4,579,095,000 during 1978. With this increase we have continued the shift in asset mix begun several years ago and mentioned in former annual reports. We have allowed mortgage loans to remain at less than 75% of total assets in contrast to 81% four years ago. There has also been a considerable emphasis on one and two year term mortgage loans, which now constitute approximately 6% of the mortgage loans outstanding. These shorter term loans provide a measure of protection for the company against adverse trends in the cost of demand and short term deposits. Investments in personal and commercial loans, together with the real estate holdings of our subsidiary, CanPerm Realty Limited, now account for 6.3% of assets, up from 6.0% in 1977. Liquid assets in the form of cash, bank deposits and short term paper account for 5.4% of the total.

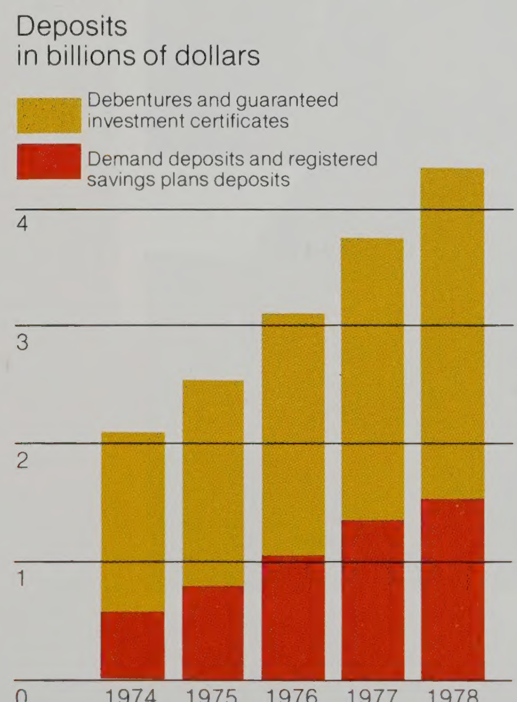
Turning now to the income statement, investment income, at $427,417,000, was 19.7% higher than the amount earned in 1977. On the other hand, interest paid on deposits cost us $341,062,000, an increase of 23.9% over the 1977 cost. These two figures dramatically reveal the narrowed interest spread we referred to earlier, inasmuch as our net investment income—the difference between the interest and dividends earned and the interest paid—amounted in 1978 to $86,355,000, which represents a margin of 20.2% on the total earned. This is in marked contrast to our experience in 1977, when our net investment income of $81,852,000 represented a healthy 22.9% of total investment revenues.

Fees from our fiduciary operations, together with commissions earned by our real estate division and income derived from sundry other services, amounted to $36,492,000 in 1978, 14.2% ahead of the 1977 total for these items.

An increase of 16.2% brought our operating expenses to $94,762,000 in 1978. Of this amount, $48,716,000 represents salaries and benefits, which cost 16.8% more than in 1977. Inflation played its part in bringing about this increase, as it is our policy to continue to reward our employees with competitive salaries and a comprehensive benefits package. The other element leading to higher staff costs in 1978 was the continued expansion of our branch network. This also accounts for much of the increase in premises costs, which at $10,813,000 were 19.4% higher than in 1977. All other expenses, such as the cost of marketing, data processing, insurance (including deposit insurance) business taxes, stationery, postage, telephones and other overheads together with provisions for loan losses, are combined in our income statement under the heading "other expense." In all, these items amounted to $35,233,000 in 1978, an increase of 14.5% over the 1977 figure. A strict program of budgetary control has kept these costs to a reasonable level, and staff expenses are monitored closely by means of the productivity program we mentioned in last year's report. One result of the program has been a reduction in the number of permanent employees (achieved by not replacing employees who left or retired) and an increase in the number of part-time employees who help us to maintain our service levels at peak times.

Lending and Investment Operations

Despite a relatively weak mortgage market in the latter part of 1978, we were successful in exceeding the volume target we set at the beginning of the year. For most of the year our rates were competi-



Above: Col. The Hon. Walter S. Owen
J. M. Richard Corbet

Left: William H. Mowat
The Hon. Harry Hays

tive, and with the help of our expert staff and excellent branch network, we found it possible to maintain our position in the market. As in former years, the bulk of our advances were made on the security of existing dwellings, but, due largely to the buoyant market in Alberta, financing of new construction represented 23% of the total funds advanced during the year, as compared with 21% in 1977. In addition, we facilitated Central Mortgage and Housing Corporation and Ontario Mortgage Corporation (a federal government corporation and an Ontario provincial government corporation respectively) by purchasing from them a total of $45 million in mortgage loans, making funds available to those corporations to finance specific developments in implementation of government policy. In all, our advances during 1978 totalled $713,909,000. Repayments of $330,223,000 resulted in a net increase of $383,686,000 in our mortgage portfolio, which now stands at $3,404,099,000.

Commercial loans, which are marketed through our subsidiary, The Permanent Commercial Corporation, at year's end stood at $110,598,000, having achieved a 57% increase over the December 31st, 1977 total. The average yield of our commercial loan portfolio as at December 31, 1978, was 13.8%. While we continue to make these loans available in all parts of Canada, we have recently had particular success in the Province of Alberta, to the extent that as of January, 1979, we have opened a branch office of The Permanent Commercial Corporation in Calgary.

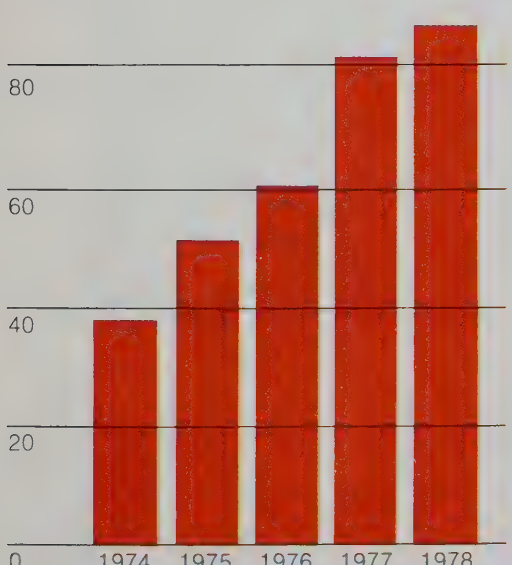
Another key contributor to our revenues is our personal and second mortgage loan portfolio, which has now completed six years of growth. Having acquired a solid position in the market place and having refined our portfolio to a very low delinquency ratio, in 1978 we developed an aggressive marketing plan for personal loans. We introduced flexible interest rates whereby the rate can be adjusted to the risk level. This enables us to acquire and keep the business of the highest quality borrowers by offering very competitive rates, while still accommodating, at higher rates, those borrowers who meet our criteria, but have not yet established top-flight credit ratings. We also introduced, during 1978, loans to finance the purchase of recreational equipment and vehicles, such as large boats and motor homes. To facilitate this type of loan, both our maximum loan amount and maximum term were doubled, to $50,000 and ten years respectively. Similar to personal loans are our second mortgage loans, in that they are made for fixed terms on a regular monthly reducing basis. Using a second charge on the borrower's home as security, these loans may be used to finance home improvements or, indeed, for any other purpose. They have proved very popular and, combined with regular personal loans, account for assets of $81,634,000 as at December 31, 1978.

Other loans grouped in the balance sheet with personal and commercial loans are call loans and accounts receivable in connection with leased aircraft, which together with loans made by Canada Permanent Trust Company (UK) Limited accounted for $77,574,000 at the year-end.

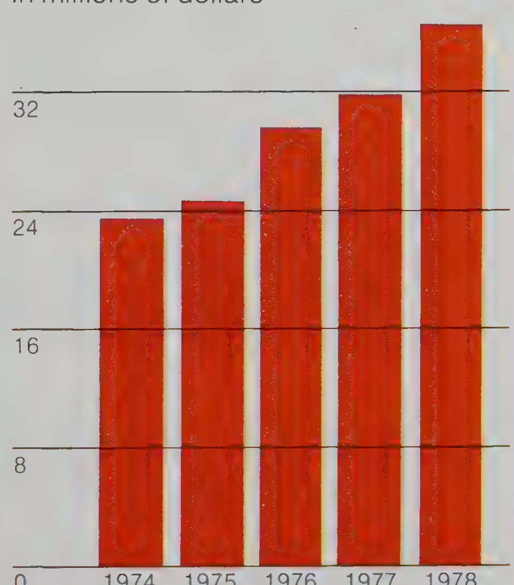
CanPerm Realty owns and manages a diverse group of properties with a total value of approximately $21 million. We are pleased to report considerable success in the leasing of space during 1978, following a difficult year in this respect in 1977.

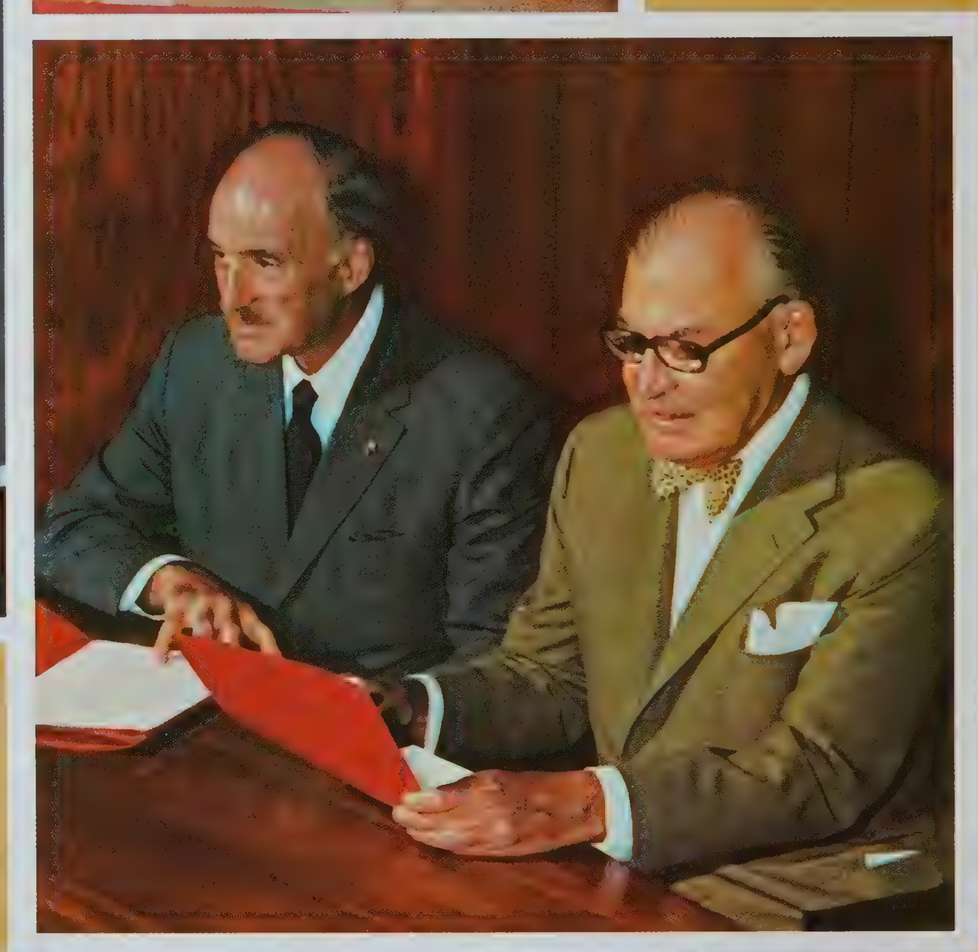
Another investment to which we have referred in previous years is our shareholding in Canada Permanent Trust Company (UK) Limited. In January 1978 we acquired an additional 21% of the shares

Interest spread: Interest income less interest expense (net interest income) in millions of dollars



Fees, commissions and other income in millions of dollars





Above: Jean J. Gourd
Upper right: Roger L. Beaulieu
Lower right: Hugh H. Mackay
Beverley Matthews

of this company, bringing our holding to 51%. The company has shown growth during the year, having total assets of £6,638,000 at December 31, 1978. The principal office is in Finsbury Square, close to the centre of London's financial district. In April a branch office was opened some two miles away in Cavendish Square, to serve clients in the busy West End.

Through a planned reinvestment program, we have increased the yield on our bond portfolio which now stands at $398,862,000, up 17% from last year's figure. We have also increased our holdings of equities, which at $189,963,000 are 41% higher than at the end of 1977. As well as providing for future growth these equity investments are a source of tax free income.

Deposit Taking Operations

At December 31, 1978, deposits stood at $4,282,247,000 as compared with $3,775,760,000 at the end of 1977, an increase of 13.4%. The bulk of the increase was in term deposits which increased by $279,424,000 to $2,743,277,000 during the year. The highest percentage gain, however, was in registered savings plans deposits which showed a gain of 30.5%, to $625,730,000.

Demand deposits showed modest growth, increasing by 9.7% over the 1977 figure, to $913,240,000. This growth pattern reflects the tendency of many depositors to place the bulk of their savings in higher yielding term deposits or in tax sheltered plans. This has resulted in a reduction in the percentage of total deposits represented by demand deposits, which, being interest sensitive, expose us to increased costs in times of rising interest rates.

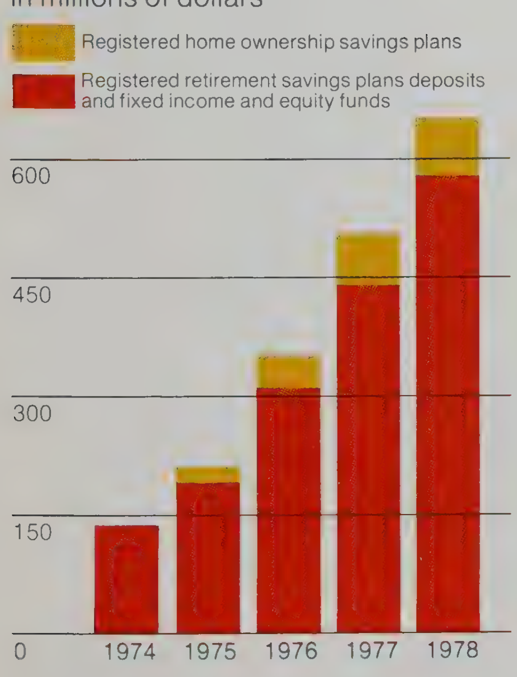
Approximately 22% of demand deposits are in chequing accounts, which provide a very convenient service for our depositors. Processing cheques, however, is a labour-intensive operation which has begun to impact noticeably on salary costs, leading to our decision to introduce modest charges for this and related services, such as payment of utility bills. We feel that our customers will still be getting excellent value, and for those who maintain certain minimum balances in their accounts, or who have reached the age of 60, there will be no charge. It is possible that as a result of making these charges, notwithstanding that they are lower than those of some of our competitors, we may see a decline in the number of accounts. We are confident, however, that the net result of our decision will be beneficial to the company.

As we mentioned earlier, interest costs were proportionately higher in 1978 than investment revenue, resulting in a reduced interest spread. The following table shows the yearly average net interest spread of the company for each of the five years ended December 31, 1978. These are basic spreads, not adjusted on a taxable equivalent basis:

	1974 %	1975 %	1976 %	1977 %	1978 %
Rate earned on investments:	9.21	9.76	10.35	10.47	10.32
Rate paid on deposits:	7.85	8.07	8.74	8.56	8.77
Average net interest spread:	1.36	1.69	1.61	1.91	1.55

It has been our practice since 1976 to furnish you with a table of maturities of certain assets and liabilities, which gives an indication of the company's liquidity, and of the degree to which fluctuations in interest rates may affect the income statement. The table shows in respect of mortgage and other loans outstanding at December 31, 1978, the amounts repayable in each of the years indicated.

Registered savings plans
in millions of dollars



Upper right: The Hon. Ellen L. Fairclough
George L. Jennison

Lower right: Eric J. Brown

Below: A. Bruce Matthews

These amounts include maturing loans, amortized principal payments, and an estimate of expected prepayments based on current experience. In respect of fixed term deposits outstanding at December 31, 1978, the table shows the amounts maturing in each of the years indicated.

Repayable in Year Ending December 31,	Loan Amounts Outstanding as at December 31, 1978	Fixed Term Deposits as at December 31, 1978
	(in thousands of dollars)	
1979	$ 944,852	$ 715,551
1980	768,207	524,729
1981	604,294	595,585
1982	658,730	474,258
1983	605,344	431,418
1984, and subsequent years	98,879	1,736
	$3,680,306	$2,743,277

Trust Operations

Fees earned for trust services, at $17,911,000, showed an increase of 6.4% over the amount received in 1977. The largest component, estate and personal trust fees, amounted to $10,220,000. Our current emphasis is on investment management services, both at the personal and the corporate level. To this end we have established a new marketing plan for trust services, and, by continuing to refine the systems and techniques of our investment division, we have brought about improved performance in clients' investment portfolios. Fees derived from pension trust and investment management services amounted to $3,709,000 in 1978, up 14.8% from 1977. Custodianship fees, which in the financial statement are included in 'other income,' amounted to $1,258,000 in 1978, an increase of 12.3% over 1977.

During 1978 our personal trust department sponsored seminars in Ottawa and Victoria on the topic "Preserving and Managing your Capital," as a means of informing interested members of the public of some of the issues faced by investors in terms of economic realities and income tax complexities. Participating were James V. Poapst, Professor of Finance, Faculty of Management Studies at the University of Toronto, J. Lyman MacInnis, Senior Partner, Touche, Ross & Co., the well known writer on taxation and finance, and Carl E. Beigie, President and Chief Executive Officer of the C. D. Howe Research Institute. The seminars were chaired by our Director, Mrs. A. F. W. Plumptre, and were well received in both centres.

In the corporate trust area, our new computer system, 'Permatrans,' which was described in last year's annual report, has enabled us to offer a superior level of service to our clients. Activity in the corporate trust area, however, remains low; in recent years there has been a decline in the number of new equity and debt issues, as well as a reduction in transfer activity. In these circumstances, we were pleased to record fees of $3,982,000, an increase of 5.6% over last year's figure.

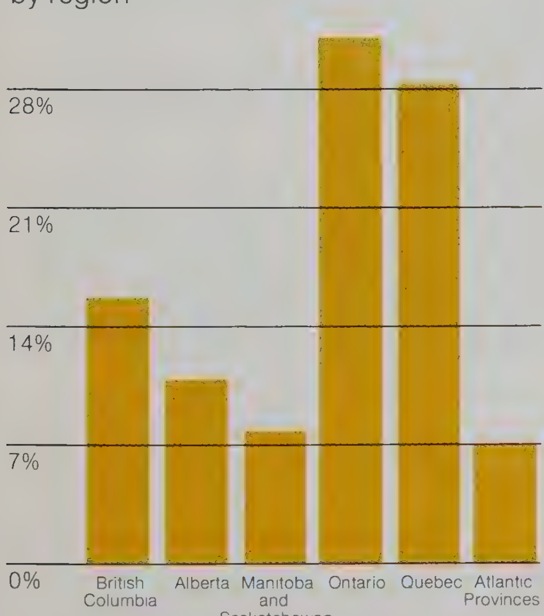
Real Estate Operations

It is a pleasure to record an increase of 26.6% in net real estate commissions over the 1977 earnings, to $10,595,000. Our goal in 1978 was to improve the profitability of this division, as rapid growth in recent years had boosted costs as well as revenues. This has now been accomplished, and our efforts in 1979 will be aimed at sustaining the momentum we have achieved. With an excellent network of offices throughout the country, manned by an experienced sales force, we look towards continued improvement in the real estate division's contribution to net profits, and maintenance of the share of market we now enjoy.

Automation

Last year we referred in some detail to the automated banking system which

Percentage of gross real estate commissions earned in 1978 by region



Left: A. Lorne Campbell
Edward F. Crease

Below: Thomas E. Ladner
Sheldon L. Fountain

was under development and scheduled to be introduced in 1979. We are pleased to report that it was possible in October to convert our central records for registered savings plans (RRSP and RHOSP) to the system, with excellent results in terms of both improved speed and accuracy. A particularly helpful feature is one which will allow us to provide clients' tax receipts much more rapidly than heretofore during the busy period of the year.

Since December the retail component has been undergoing a field test in the Toronto area, and we plan to commence installing it in branches throughout Canada by mid-1979, and by the end of the year we expect that a substantial number of branches will be using the equipment. While customer service is paramount, the system is intended also to provide us with valuable marketing data. In this connection, it is interesting to note that some of the computer programs which will form part of the total package have already been used to produce helpful information.

The other major system under development is one designed to give our trust division the best possible administrative tools with which to serve our clients. A delay has been encountered here, in that we found it necessary to terminate the arrangement with an outside design company which we referred to in last year's report. None of the work done in conjunction with the design company has been wasted, and the considerable knowledge gained during that phase is now being put to use in the development of our own system.

Inevitably this means a later installation date than originally intended, as our purpose in working with the owners of an established system was to shorten the development time. Nonetheless, we now hope to commence installation of a new system towards the end of 1979 or in early 1980. We will then have the advantage of a system tailored to our own specific requirements, with the added bonus of a cost saving through developing much of it ourselves.

Personnel

We are fortunate in having an able and dedicated staff, whose loyalty and support have always been our most valued asset. At no time are they more appreciated than during periods such as the present, when the company's progress must depend heavily on their willingness to give of their best. We extend our warm thanks to all the men and women of The Permanent for their superior efforts during 1978.

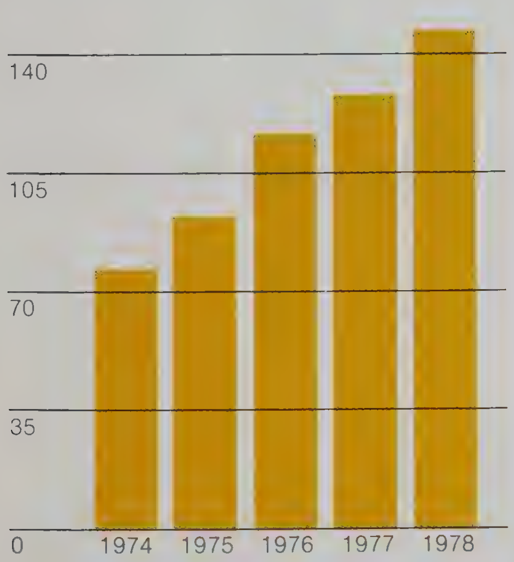
Directors and Advisory Boards

We are pleased to report that during 1978 both Sheldon L. Fountain and W. Douglas Hatch, who have been directors of Canada Permanent Trust Company for many years, were elected to the board of Canada Permanent Mortgage Corporation. Also elected to the Mortgage Corporation board were Douglas G. Bassett of Toronto and Leslie R. Pincott of London, England. The Honourable Ellen L. Fairclough of Hamilton was elected a director of Canada Permanent Trust Company. The board of the Trust Company accepted, with regret, the resignation of William H. Mowat, who will continue to be associated with us as a director of the Mortgage Corporation.

We welcomed new advisory board members as follows: J. Albert Brulé at Ottawa; The Honourable Ellen Fairclough at Hamilton; Robert J. Wallace at Fredericton. During the year we were sorry to lose the services of the following advisory board members who have retired: James R. Creaser at Lunenburg; J. Howard Kelly at Calgary; Donald S. Rogers, Manitoba.

Our advisory board in London, England was established when we had a repre-

Employee productivity: income per employee in thousands of dollars



Above: Robert D. Armstrong
Upper right: Leslie R. Pincott
Norman E. Whitmore
Lower right: Douglas G. Bassett

sentative office in that city. This board, having served its purpose admirably, was discontinued in 1978 upon the formation of Canada Permanent Trust Company (UK) Limited, which has a board of directors of its own, chaired by Leslie R. Pincott, a director of Canada Permanent Mortgage Corporation. We take this opportunity to express our appreciation for the advice and assistance received over the past few years from Peter W. Bennett and Sir Peter Studd.

Dividend Reinvestment Plan

We are pleased to announce the introduction of an automatic dividend reinvestment plan for holders of the company's common shares. Participants in the plan will have their dividends invested in common shares at current prices and added to their holdings. All expenses and brokerage commissions will be absorbed by the company. Details of the plan, together with authorization forms, have already been sent out, and we are very pleased with the response we have received at this early date.

Outlook for 1979

By now it is apparent that there is general agreement among economic experts that 1979 will be a trying year for the Canadian economy. Recent forecasts have suggested that real gross national product will rise by 3.4% in 1979, almost exactly equal to the 1978 rate. Our own view is that the rise may be even more modest, in the order of 2.5%, due to the influence of a likely slowdown in the United States fairly early in the year. If, as we hope, this slowdown can be checked, we are encouraged to believe that towards the end of 1979 there will be an upward trend, carrying on into 1980.

Our industry will, as always, be strongly affected by movements in interest rates. The Government, through the Bank of Canada, appears to be committed to maintaining Canadian interest rates at higher than U.S. levels, in an effort to stabilize the exchange rate of the Canadian dollar. Consequently the present rate structure is likely to continue for some time. If the U.S. economy slows, interest rates may fall in the latter part of 1979, with attendant benefits for the economy and, more particularly, for this company.

Apart, then, from a hoped-for improvement in late 1979, the year promises to be arduous. Housing starts are predicted to be fewer than in 1978, and competition among lenders will be extremely vigorous. We must recognize that the high growth rates of the early nineteen-seventies cannot continue to be sustained in this environment. Our objective will be to maintain our market share and to continue to improve our productivity.

Coupled with the economic realities we are facing is continued uncertainty about the future of our industry in relation to the country's overall financial system. The effects of the forthcoming Bank Act revision are yet to be measured, and for us, the complete story will not have been told until the Trust and Loan Companies Acts are brought up to date. In such a climate it is our duty to explore every possible means of coping with the future and looking after the best interests of our shareholders. One such avenue is the possible merger with IAC Limited, which we referred to in our interim report of October 11, 1978. As IAC Limited is about to become the Continental Bank of Canada, such a merger would result in a bank of substantial size, whose combined management and staff would have expertise in all areas of banking and finance. Because of the complexity of the concept and its dependence upon changes in the Bank Act legislation, it is still too early to say whether such a merger could be recommended to shareholders. However, the proposal can be viewed as an example of the courses being explored in an effort to improve our competitive stance in the years that lie ahead.

While it is clear that we are entering into a new and perhaps even more competitive era for our company, we are confident that we have the strengths and skills, and above all, the will and determination, to meet the challenges we are about to encounter.

Donald G. Neelands,
Chairman.

Eric J. Brown,
President.

Consolidated Statement of Earnings

Year ended December 31, 1978
(with comparative figures for 1977)

	1978	1977
Income:		
Interest from mortgage and other loans	**$361,892,000**	$307,544,000
Other interest and dividends	**65,525,000**	49,686,000
	427,417,000	357,230,000
Estate and personal trust fees	**10,220,000**	9,838,000
Corporate service fees	**3,982,000**	3,771,000
Pension trust and investment management fees	**3,709,000**	3,232,000
Net real estate commissions	**10,595,000**	8,368,000
Other income	**7,986,000**	6,735,000
	463,909,000	389,174,000
Expense:		
Interest	**341,062,000**	275,378,000
Staff remuneration and benefits	**48,716,000**	41,703,000
Premises expense	**10,813,000**	9,053,000
Other expense	**35,233,000**	30,768,000
	435,824,000	356,902,000
Operating income before income taxes	**28,085,000**	32,272,000
Income taxes (note 7):		
Current	**3,084,000**	1,773,000
Deferred	**5,326,000**	10,166,000
	8,410,000	11,939,000
Net operating income	**19,675,000**	20,333,000
Net gain on disposal of securities and premises, less related income taxes of $41,000 (1977–including income tax reduction of $145,000)	**75,000**	31,000
Net earnings for the year	**$ 19,750,000**	$ 20,364,000
Net earnings per common share–basic (note 10)	**$2.26**	$2.61

Consolidated Statement of Retained Earnings

Year ended December 31, 1978
(with comparative figures for 1977)

	1978	1977
Retained earnings, beginning of year	**$71,706,000**	$73,210,000
Net earnings for the year	**19,750,000**	20,364,000
	91,456,000	93,574,000
Deduct:		
Dividends—series A preference shares	**2,025,000**	1,807,000
—series B preference shares	**1,679,000**	
—common shares	**8,096,000**	7,776,000
	11,800,000	9,583,000
Expenses of series A preference share issue less related income tax reduction		801,000
Goodwill arising on amalgamation (note 1(a))		11,484,000
	11,800,000	21,868,000
Retained earnings, end of year	**$79,656,000**	$71,706,000

Consolidated Balance Sheet

December 31, 1978
(with comparative figures at December 31, 1977)

Assets	1978	1977
Bank deposit receipts and cash	**$ 245,009,000**	$ 263,112,000
Securities (note 2):		
Bonds and debentures	**398,862,000**	340,083,000
Stocks	**189,963,000**	134,504,000
	588,825,000	474,587,000
Loans:		
Mortgages	**3,404,099,000**	3,020,413,000
Personal and secured commercial loans	**269,806,000**	225,287,000
Advances to estates, trusts and agencies	**6,401,000**	8,745,000
	3,680,306,000	3,254,445,000
Premises and equipment (note 3)	**56,061,000**	52,409,000
Other assets	**8,894,000**	8,624,000
	$4,579,095,000	$4,053,177,000

We hereby certify that to the best of our knowledge and belief the consolidated balance sheet at December 31, 1978 and the accompanying consolidated statements of earnings, retained earnings and changes in financial position for the year then ended are correct and show truly and clearly the financial condition of the Corporation's affairs at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended.

D. G. Neelands,
Chairman and Director

E. J. Brown,
President and Director

Liabilities and Shareholders' Equity

	1978	1977
Demand deposits	**$ 913,240,000**	$ 832,371,000
Registered savings plans deposits	**625,730,000**	479,536,000
Debentures and guaranteed investment certificates	**2,743,277,000**	2,463,853,000
	4,282,247,000	3,775,760,000
Other liabilities:		
Income taxes payable	**48,000**	3,791,000
Dividends payable	**2,951,000**	2,530,000
Accounts payable	**45,080,000**	34,830,000
Notes and mortgages payable (note 4)	**19,860,000**	20,757,000
	67,939,000	61,908,000
Deferred income taxes	**47,204,000**	41,878,000
Minority interest in subsidiaries	**489,000**	21,394,000
Shareholders' equity:		
Capital stock (note 6)	**65,232,000**	44,203,000
Contributed surplus	**36,328,000**	36,328,000
Retained earnings	**79,656,000**	71,706,000
	181,216,000	152,237,000
	$4,579,095,000	$4,053,177,000

Auditors' Report

To the Shareholders of
Canada Permanent Mortgage Corporation:

We have examined the consolidated balance sheet of Canada Permanent Mortgage Corporation as at December 31, 1978 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.
Chartered Accountants

Toronto, Canada,
January 17, 1979.

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1978
(with comparative figures for 1977)

	1978	1977
Funds provided by:		
Debentures and guaranteed investment certificates issued	**$ 755,390,000**	$ 602,200,000
Registered savings plans deposits less withdrawals	**146,194,000**	160,738,000
Demand deposits less withdrawals	**72,263,000**	95,028,000
Mortgage principal repayments	**330,223,000**	278,411,000
Securities sold or redeemed	**165,529,000**	111,211,000
Issue of 1,200,000 series A preference shares		30,000,000
Issue of 841,141 series B preference shares (note 6)	**21,029,000**	
Issue of preference shares of subsidiary on amalgamation		21,326,000
Decrease in bank deposit receipts and cash	**18,639,000**	
Operations (before deferred income taxes, depreciation and other non-cash items of $12,872,000; 1977–$13,704,000)	**32,622,000**	34,068,000
Total provided	**$1,541,889,000**	$1,332,982,000
Funds applied to:		
Debentures and guaranteed investment certificates redeemed	**$ 475,966,000**	$ 363,407,000
Mortgage principal advances	**713,909,000**	551,128,000
Security investments	**279,767,000**	281,859,000
Personal and secured commercial loans less repayments	**34,969,000**	49,299,000
Dividends	**11,800,000**	9,583,000
Increase in bank deposit receipts and cash		36,076,000
Net assets acquired on amalgamation of subsidiary including goodwill (note 1(a))		21,467,000
Acquisition of preference shares of subsidiary (note 6)	**21,029,000**	
Other (including net assets of subsidiary acquired in 1978 of $756,000)	**4,449,000**	20,163,000
Total applied	**$1,541,889,000**	$1,332,982,000

Notes to Consolidated Financial Statements

December 31, 1978

1. Summary of significant accounting policies

The following is a summary of significant accounting policies followed in the preparation of these consolidated financial statements:

(a) Consolidation

These consolidated financial statements include the accounts of Canada Permanent Mortgage Corporation and all subsidiary companies. These subsidiaries are:

	Percentage of common shares owned
Canada Permanent Trust Company	99.9%
Canada Permanent Trust Company (U.K.) Limited	51.0 (1977–30.0%)
CanPerm Realty Limited	100.0
The Permanent Home Trade Plan Ltd.	99.9
The Permanent Commercial Corporation	75.0

In 1977 and prior years the Corporation's investment in Canada Permanent Trust Company (U.K.) Limited, formerly Canada Permanent AFI Limited, was accounted for on the equity basis.

Effective December 31, 1977, Hamilton Trust and Savings Corporation ("Hamilton Trust") was amalgamated with the subsidiary Canada Permanent Trust Company, in accordance with the provisions of the Trust Companies Act (Canada). Accordingly, the consolidated statement of earnings includes the results of operations of the amalgamated company in 1978 and the results of operations of the amalgamating subsidiary, but not of Hamilton Trust, in 1977. The tangible assets and liabilities of the amalgamated company are reflected in the consolidated balance sheets at both December 31, 1977 and 1978. In accordance with the requirements of regulatory authorities, goodwill of $11,484,000 arising on the amalgamation was applied in reduction of consolidated retained earnings at December 31, 1977.

(b) Securities and loans

Bonds and debentures are stated at amortized cost and stocks generally at cost, all together with accrued interest and dividends receivable. Personal loans are stated at the amounts repayable, less unearned interest and provisions for losses, with income accounted for on the sum-of-the-digits basis. Mortgages and other loans are stated at cost plus accrued interest, less repayments and provisions for losses.

Included with personal and secured commercial loans in the consolidated balance sheet are receivables under equipment rental contracts with a carrying value at December 31, 1978 of $43.9 million (1977–$46.2 million). These receivables are recorded net of unearned income in accordance with the financing method of accounting under which income is recognized over the terms of the leases in decreasing amounts as rental payments are received.

(c) Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Rates of depreciation and amortization applied on a straight-line basis to amortize the cost of these assets over their estimated economic lives are as follows:

Buildings	2½%
Equipment	10%–20%
Leasehold improvements	over the terms of the leases

Gains and losses on disposal of premises and equipment are included in net income as realized.

(d) Deferred income taxes

The Corporation follows the tax allocation basis of accounting whereby income taxes deferred to future years as a result of timing differences between accounting income and income for tax purposes (principally depreciation and mortgage reserve allowances) are recorded as deferred income taxes.

(e) Fees, commissions and other income

The above items are included in income as received.

Notes to Consolidated Financial Statements

December 31, 1978

2. Securities

Securities consist of the following:

	1978		1977	
	Stated value	**Market**	Stated value	Market
Bonds and debentures–				
Bonds of or guaranteed by–				
Government of Canada	**$178,357,000**	**$169,545,000**	$119,341,000	$119,139,000
Provinces of Canada	**43,654,000**	**41,001,000**	47,060,000	46,278,000
Canadian municipalities	**1,804,000**	**1,557,000**	2,085,000	1,871,000
Corporate	**175,047,000**	**168,045,000**	171,597,000	167,765,000
	398,862,000	**380,148,000**	340,083,000	335,053,000
Stocks–				
Preferred	**129,082,000**	**125,225,000**	83,832,000	79,852,000
Common	**60,881,000**	**92,761,000**	45,411,000	61,349,000
Corporate joint ventures			5,261,000	5,261,000
	189,963,000	**217,986,000**	134,504,000	146,462,000
Total securities	**$588,825,000**	**$598,134,000**	$474,587,000	$481,515,000

3. Premises and equipment

Premises and equipment consist of:	**1978**	**1977**
Land	**$ 9,077,000**	$ 8,905,000
Buildings, equipment and leasehold improvements, less accumulated depreciation and amortization	**46,984,000**	43,504,000
	$56,061,000	$52,409,000

Depreciation and amortization included in premises and other expenses in 1978 totalled $4.7 million (1977–$3.0 million).

4. Notes and mortgages payable

Notes and mortgages payable is comprised of the following:	**1978**	1977
11% notes repayable in equal blended instalments of principal and interest to 1990 against which are pledged assets carried in the consolidated balance sheet at December 31, 1978 at $29.9 million (1977–$31.4 million)	**$18,460,000**	$19,177,000
6½% to 12% mortgages secured by certain premises and due 1979 to 1986	**1,400,000**	1,580,000
	$19,860,000	$20,757,000

5. Guaranteed trust account

Included in the consolidated balance sheet are assets and liabilities of the guaranteed trust account of Canada Permanent Trust Company as follows:

	1978	1977
Assets–		
Cash and bank deposit receipts	**$ 102,784,000**	$ 110,286,000
Securities:		
Bonds	**205,241,000**	189,748,000
Stocks	**70,219,000**	33,821,000
Investment in affiliated company	**20,000,000**	
Loans:		
Mortgages	**2,200,974,000**	1,868,681,000
Personal loans	**58,241,000**	50,998,000
	$2,657,459,000	$2,253,534,000
Liabilities–		
Demand deposits	**$ 532,612,000**	$ 491,377,000
Registered savings plans deposits	**625,730,000**	479,536,000
Guaranteed investment certificates	**1,499,117,000**	1,282,621,000
	$2,657,459,000	$2,253,534,000

Notes to Consolidated Financial Statements

December 31, 1978

6. Capital Stock

During 1978, the Corporation issued 841,141 8% cumulative redeemable preference shares series B of the par value of $25 each in exchange for an equal number of 8% cumulative redeemable preference shares of the par value of $25 each of Canada Permanent Trust Company. The preference shares of the subsidiary were issued in 1977 to former shareholders of Hamilton Trust and Savings Corporation on the amalgamation of that trust company with the subsidiary and were included with minority interest in the consolidated balance sheet at December 31, 1977.

At December 31, 1978 and 1977 the authorized and issued share capital of the Corporation was as follows:

	1978	1977
Authorized—		
4,000,000 preference shares of the par value of $25 each, issuable in series		
20,000,000 common shares of the par value of $2 each		
Issued—		
1,200,000 6¾% tax deferred cumulative redeemable convertible preference shares series A	**$30,000,000**	$30,000,000
841,141 8% cumulative redeemable preference shares series B	**21,029,000**	
7,101,455 common shares	**14,203,000**	14,203,000
	$65,232,000	$44,203,000

Tax deferred dividends on the series A preference shares are payable at an annual rate of 6¾% until October 1, 1991, after which date taxable dividends at an annual rate of 8¾% become payable.

The series A preference shares are convertible at the option of the holder into common shares at any time to October 1, 1991 at $21 per common share if converted prior to April 1, 1984, increasing in $1 per share stages to $25 per common share after April 1, 1990. The shares are redeemable after March 31, 1982 and on or before March 31, 1983 at $26.25 per share reducing $0.25 per annum to March 31, 1987 after which date the shares are redeemable at par value.

In each twelve month period commencing on April 1, 1982, and subject to certain conditions, the Corporation is required to endeavour to purchase for cancellation in the open market at not more than par value series A preference shares equal to 3% of the par value of the shares outstanding.

The series B preference shares are redeemable after December 31, 1982 at $26.50 per share reducing $0.15 per annum to December 31, 1992 after which date the shares are redeemable at par value. In each calendar year, and subject to certain conditions, the Corporation is required to endeavour to purchase for cancellation in the open market an aggregate of 42,500 series B preference shares at not more than par value. No series B preference shares were purchased under this provision in 1978.

7. Income taxes

A portion of the Corporation's income is tax exempt dividend income; accordingly income taxes as provided in the consolidated statement of earnings are less than the amount obtained by applying statutory taxe rates to operating income before income taxes.

8. Anti-Inflation Program

Under the Anti-Inflation Act and Regulations, the Corporation and its subsidiaries were subject to mandatory compliance with controls on revenue, profits and employee compensation to December 31, 1978 and on shareholder dividends to October 13, 1978. Management believes that the companies have complied with the Act and Regulations.

9. Commitments

At December 31, 1978, outstanding commitments for mortgage advances amounted to $128,798,000.

Contractual obligations at December 31, 1978 in respect of lease rentals were as follows:

	Payable in the period
1979	$ 5,157,000
1980	4,986,000
1981	4,664,000
1982	4,316,000
1983	4,030,000
thereafter	22,100,000

10. Fully diluted earnings per common share

Fully diluted earnings per common share in 1978 were $2.12 (1977—$2.39). These amounts reflect the impact on earnings per common share which would have resulted had all the series A preference shares been converted into common shares at the lowest conversion price (i) at the beginning of 1978 in respect of that year and (ii) at the date of issue in respect of 1977.

11. Proposed merger

On September 25, 1978 the Corporation announced that it was carrying on exploratory discussions with IAC Limited concerning the possibility of eventual merging with that Company and Continental Bank of Canada to form a new bank. A continuation of such discussions is contingent upon the enactment of appropriate changes in the Bank Act.

Statistical Review

	1978	1977	1976	1975	1974
Position at year-end		(in thousands except for statistics per share)			
Company assets:					
Mortgages	**$3,404,099**	$3,020,413	$2,547,200	$2,146,216	$1,792,821
Other	**1,174,996**	1,032,764	722,739	580,174	420,013
	4,579,095	4,053,177	3,269,939	2,726,390	2,212,834
Estate, trust and agency assets	**2,977,968**	2,884,241	2,596,359	2,602,965	2,505,363
Total assets under administration	**7,557,063**	6,937,418	5,866,298	5,329,355	4,718,197
Demand deposits	**913,240**	832,371	695,771	615,931	476,072
Registered savings plans deposits	**625,730**	479,536	318,798	195,370	115,238
Debentures and guaranteed investment certificates	**2,743,277**	2,463,853	2,044,126	1,727,042	1,475,257
Total borrowings	**4,282,247**	3,775,760	3,058,695	2,538,343	2,066,567
Shareholders' equity	**181,216**	152,237	123,741	114,579	107,206
Number of shares issued—Common	**7,101**	7,101	7,101	7,101	7,101
—Preference	**2,041**	1,200			
Results for the year					
Income:					
Investment	**427,417**	357,230	296,747	230,341	184,941
Other income	**36,492**	31,944	29,932	24,221	23,530
Total income	**463,909**	389,174	326,679	254,562	208,471
Expense:					
Interest	**341,062**	275,378	236,617	178,694	146,688
Staff remuneration	**48,716**	41,703	35,846	30,729	27,025
Other operating expense	**46,046**	39,821	30,001	24,074	18,295
Total expense	**435,824**	356,902	302,464	233,497	192,008
Operating income before income taxes	**28,085**	32,272	24,215	21,065	16,463
Income taxes	**8,410**	11,939	7,854	6,707	5,523
Net operating income	**19,675**	20,333	16,361	14,358	10,940
Net gains on asset sales	**75**	31	44	117	38
Net earnings	**19,750**	20,364	16,405	14,475	10,978
Statistics per share					
Net earnings	**$ 2.26**	$ 2.61	$ 2.31	$ 2.04	$ 1.55
Dividends	**1.14**	1.095	1.02	1.00	1.00
Common shareholders' equity	**18.33**	17.21	17.43	16.14	15.10

Company Executives

Corporate Division

Donald G. Neelands, Q.C., C.T.C.I.,
Chairman and Chief Executive Officer
Eric J. Brown, Q.C., C.T.C.I.,
President and Chief Operating Officer

E. G. Dewling, *Vice-President and Corporate Secretary*
E. A. Fricker, C.A., F.T.C.I., *Vice-President Corporate Planning*
Earl Bederman, *Assistant Vice-President and Economist*

Administration Division

N. G. Wright, F.T.C.I., *Senior Vice-President*

Marketing
J. T. Morgan, *Assistant Vice-President*

Organization Planning
John Pistilli, *Assistant Vice-President*

Personnel
R. A. G. Stuart, *Assistant Vice-President*

Premises
R. B. McArthur, *Assistant Vice-President*

Finance and Commerce Division

H. G. Tait, C.A., *Senior Vice-President*

Controller's Office
Colin Dell, C.A., *Assistant Vice-President and Controller*

Financial Research
R. B. Jones, *Assistant Vice-President*

Information Services
W. M. Kerrigan, *Vice-President*

Internal Audit
D. R. McGibbon, C.A., *Assistant Vice-President*

Treasury
F. G. Porter, *Assistant Vice-President and Treasurer*

Subsidiary and Affiliated Companies

CanPerm Realty Limited
Ronald Mendel, *Vice-President*

The Permanent Commercial Corporation
Hugh Rorison, *President*

Canada Permanent Trust Company (U.K.) Ltd.
J. H. W. Weston, F.C.A., *Managing Director*

Real Estate Division

E. H. Smith, F.T.C.I., *Senior Vice-President*

Real Estate Services
R. E. Barr, *Vice-President*

Operating Division

J. H. Deason, *Senior Vice-President*

Investment Services
S. R. Rudd, *Vice-President*
Stephen Longshore, *Assistant Vice-President, Fixed Income Investments*
C. L. Merkley, *Assistant Vice-President, Investment Planning*
D. A. Wilson, *Assistant Vice-President Equity Investments*

Regional Operations
Colin Currie, M.T.C.I., *Vice-President, Central Region*
D. J. Butler, F.T.C.I., *Assistant Vice-President Hamilton District*
L.J. Dunsdon, F.T.C.I., *Assistant Vice-President and Branch Manager, Main Brantford Branch*
Paul Desrochers, *Vice-President, Eastern Region*
D. J. Sullivan, F.T.C.I., *Assistant Vice-President and Branch Manager, Main Montreal Branch*
C. J. Taylor, M.T.C.I., *Assistant Vice-President and Branch Manager, Main Ottawa Branch*
R. M. Dragan, F.T.C.I., *Vice-President Western Region*
A. K. Forsyth, M.T.C.I., *Assistant Vice-President and Branch Manager, Main Winnipeg Branch*
Sydney Mentiply, F.T.C.I., *Vice-President, Pacific Region*
J. E. Duff, F.T.C.I., *Assistant Vice-President and Branch Manager, Main Vancouver Branch*
H. A. Manson, M.T.C.I., *Assistant Vice-President and Branch Manager, Main Victoria Branch*
A. W. Nicolle, F.T.C.I., *Vice-President, Atlantic Region*
J. B. Ells, F.T.C.I., *Assistant Vice-President and Branch Manager, Main Halifax Branch*
A. C. Langley, F.T.C.I., *Assistant Vice-President, Operations*

Savings and Loan Services
J. E. Donahoe, F.T.C.I., *Vice-President*
J. L. Collis, M.T.C.I., *Assistant Vice-President, Mortgage Services*
R. S. Robson, *Assistant Vice-President and Branch Manager, Savings and Loan Services (Metro Toronto)*
E. E. Spencer, M.T.C.I., *Assistant Vice-President, Savings and Loan Services*

Trust Services
H. K. Naylor, F.T.C.I., *Vice-President*
Reginald Bertram, M.T.C.I., *Assistant Vice-President and Branch Manager, Trust Services (Metro Toronto)*
G. B. Clapperton, M.T.C.I., *Assistant Vice-President, Personal Trust and Agency Services*
Berkeley Hynes, *Assistant Vice-President, Customer Services*
D. M. Lyons, *Assistant Vice-President Trust Marketing*
H. K. Minns, M.T.C.I., *Assistant Vice-President, Retirement Savings and Fund Services*

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Eric J. Brown, Q.C., Toronto* †

Vice-President
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Partner,
Strathy, Archibald & Seagram

Robert D. Armstrong, F.C.A., Toronto* †
Chairman and Chief Executive Officer,
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Douglas G. Bassett, Toronto*
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Beaulieu, MacKell & Clermont

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Sheldon L. Fountain, Halifax* †
President,
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Burchell, Jost, MacAdam & Hayman

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Director, Pitfield Mackay
Ross Limited

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Toronto* †
Deputy Chairman,
Argus Corporation Limited

Beverley Matthews, Q.C., Toronto* †
Partner, McCarthy & McCarthy

William H. Mowat, Vancouver*

Col. The Hon.
Walter S. Owen, Q.C., LL.D.,
Vancouver* †

John F. Perrett, Q.C., Toronto* †
Partner, Robertson, Perrett

William P. Pigott, Ancaster* †
President,
Pigott Construction Limited

Leslie R. Pincott, London, England*
Deputy Chairman, Price Commission

Mrs. A. F. W. Plumptre, LL.D., Ottawa* †
Consultant

Charles B. Stewart, Toronto* †

Norman E. Whitmore, Regina* †
President,
Wascana Investments Limited

Roger D. Wilson, Q.C., Toronto* †
Partner, Fasken & Calvin

* Canada Permanent Mortgage Corporation
† Canada Permanent Trust Company

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